HOUSING MARKET OUTLOOK
Sherbrooke CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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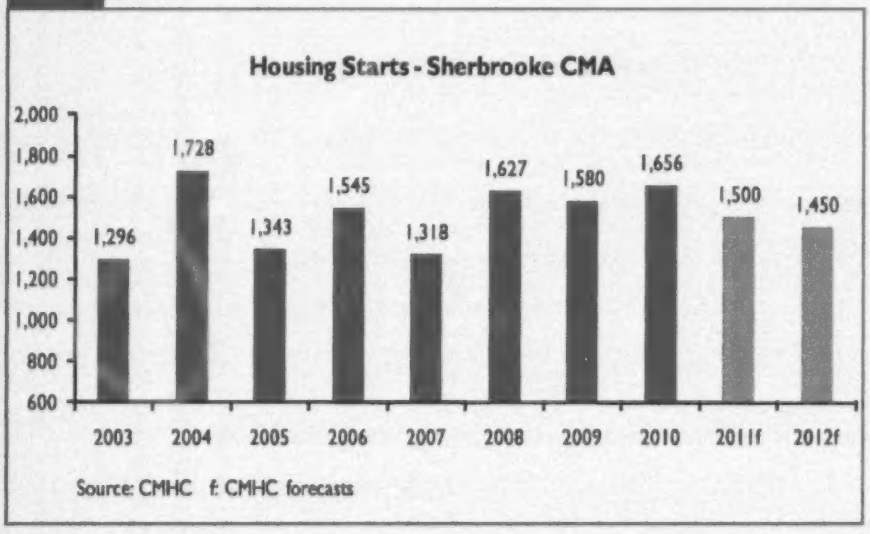
Housing market expected to stabilize in 2012[1]

Activity on the Sherbrooke census metropolitan area (CMA) housing market has decreased slightly until now and should moderate again by the end of 2011, before stabilizing in 2012.

Housing starts will end 2011 down 9 per cent and then drop by 3 per cent in 2012. Economic uncertainty offset the positive effect of the low mortgage rates, and many households had moved up their home purchases into 2010, which subsequently reduced the pool of potential buyers. On the resale market, transactions should record a slight decrease of less than 1 per cent by the end of 2011 (to

Figure 1



[1] The forecasts and historical data included in this document reflect information available as of October 5, 2011.

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1,725 sales) and stabilize downward in 2012 (to 1,700 sales). The market will remain balanced, with prices climbing slightly.

Employment to stabilize in 2012

As was the case in most areas of Quebec, the Sherbrooke CMA regained all the jobs that were lost during the last recession. However, after experiencing a healthy recovery starting in the spring of 2010, employment in the greater Sherbrooke area has dropped slightly since this past June, falling from 100,800 jobs in June to 97,600 in September 2011.

Economic uncertainty prevailing on the world markets could impact the employment outlook, as jobs should level off at 99,000 for 2011. In 2012, employment in the Sherbrooke CMA will reach 100,000 jobs, up 1 per cent from 2011. Job market stability will have a positive influence on the housing market.

Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Net migration to remain stable

In 2010, net migration in the Sherbrooke CMA reached an all-time high of 1,866 people. This high level was largely attributable to the record number of migrants and also to Sherbrooke's appeal among residents from other areas of Quebec.

We expect these two migration components to remain stable over the next few years. In fact, between 52,500 and 55,000 immigrants could settle in the province of Quebec, and the demographic changes observed at the provincial level will no doubt have an impact on net migration in the Sherbrooke area, given that the CMA receives 2 to 3 per cent of these immigrants. And, as was the case in 2010, the Sherbrooke area will continue to welcome many people from other areas of Quebec.

For both these reasons, net migration in the Sherbrooke CMA will be similar to previous years and reach close to 1,850 people in 2012. In the short term, these newcomers will no doubt stimulate demand for housing (especially rental dwellings).

MLS® sales to remain stable in 2012[2]

From January to September, MLS® sales in the Sherbrooke CMA dropped by 1 per cent. This decrease can be explained by the move-up effect that was observed in 2010 and by a small rise in inventories of unabsorbed units on the new home market. This slight decline will continue in the last quarter, such that there should be a total of 1,725 MLS® sales in 2011, essentially the same level as in 2010.

In 2012, this slight downward trend will continue, and sales will reach 1,700 units (-1 per cent). As mentioned earlier, MLS® sales should benefit from a stable job market and financing conditions that will remain favourable to consumers on the housing market. It should be recalled, as well, that the supply of existing homes keeps growing from year to year, which in turn increases the potential for MLS® sales in the Sherbrooke area. However, the movement toward the purchase of new homes, intensified by a slight rise in the inventory of unabsorbed units, could lead to increased competition from the new home market and the stabilization of demand on the resale market. In fact, it should not be forgotten that the construction of affordable semi-detached and row homes remained fairly strong in Sherbrooke.

On the supply side, active listings have remained stable in the last three years. This stability should continue in 2012, as buyers moved up their purchases into 2010 and do not plan on reselling their properties.

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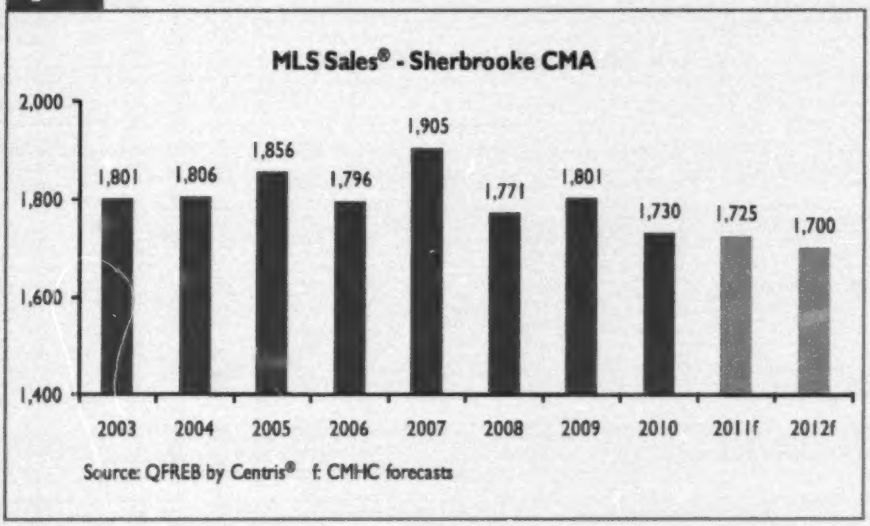
[2] Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

Figure 2



The combination of these factors (stability in demand and supply) will result in a continued balanced market in 2012. The average price should increase less than in 2011, rising from $220,000 in 2011 to $230,000 in 2012, for a 5-per-cent gain.

Housing starts to decrease in 2012

From January to September 2011, foundations were laid for 1,197 housing units in the Sherbrooke CMA. At this rate, we expect that the Sherbrooke CMA will end 2011 with 1,500 housing starts (-9 per cent). This decrease will follow the all-time high recorded in 2010, when 1,656 dwellings were started. Economic uncertainty, combined with the move-up effect, has pushed down housing starts in 2011, and this trend should continue in 2012. We therefore expect that foundations will be laid for 1,450 units next year (-3 per cent).

However, the decline in 2011 conceals opposing dynamics: single-detached housing starts will drop by 7 per cent (to 530 units), while semi-detached and row housing starts will increase by 14 per cent, to 360 units, and apartment starts will drop by 27 per cent, to 560 units.

The results from the last few quarters tend to confirm that single-detached homes have been losing ground to semi-detached and row homes, which are a generally more affordable housing type.

The apartment segment, for its part, registered a decrease from 2010. In fact, in the first three quarters of 2011, 28 per cent fewer units were built than during the same period in 2011. This drop was largely attributable to the co-operative housing segment, where activity varies from year to year depending on the needs and projects. The rental apartment segment also sustained a drop compared to a year ago (-11 per cent), and foundations should be laid for a total of 420 such units in 2011. Given the increase in the vacancy rate, this downward trend should continue in 2012, when 400 rental units should be started (-5 per cent). Finally, the condominium segment also posted a decline compared to the same period in 2010, but this segment has exhibited a seesaw pattern for the past few years. We estimate that construction will get under way on 100 units in 2011 and 150 in 2012.

Rental market to ease slightly

According to the results of the latest CMHC Rental Market Survey conducted in October 2010, the rental apartment vacancy rate increased again in the Sherbrooke CMA. After climbing by 1.1 percentage points

Figure 3

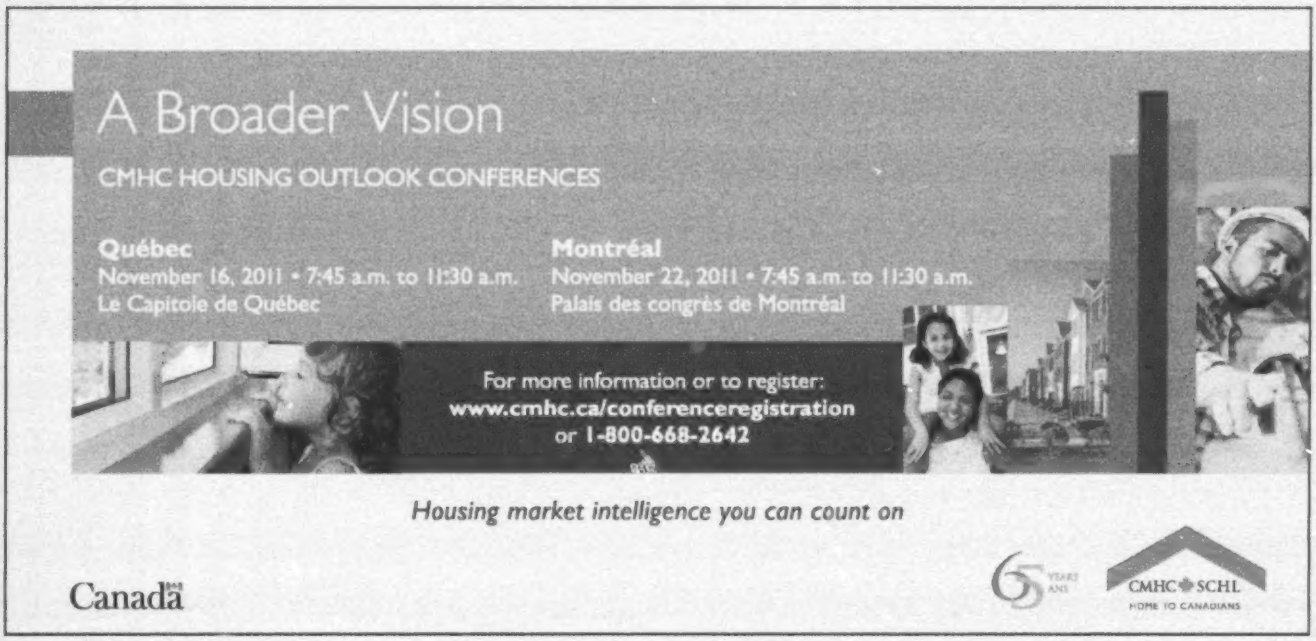
in 2009, to 3.9 per cent, this rate continued to rise in 2010, reaching 4.6 per cent. The area's rental market has now been easing more significantly for the past four years, mainly as a result of a strong shift to homeownership. It should be mentioned that the increase in the size of the rental housing stock also contributed to the rise in the vacancy rate, but to a lesser extent.

As was already mentioned earlier, this homeownership trend, while not stopping altogether, did slow down in the Sherbrooke CMA. This will help maintain and even boost demand for rental units.

Another significant factor is the record number of migrants who arrived in the Sherbrooke CMA this year or will be arriving in the area in 2012. Most of these new migrants, when they arrive, will be looking for an apartment, which will again favour the rental market.

In spite of this steady demand, it should not be forgotten that more units will be added to the rental housing stock, increasing supply on this market in 2012.

The factors fuelling rental housing demand this year will again do so next year, such that the vacancy rate should stabilize at about 5 per cent in 2012. Furthermore, the average monthly rent for two-bedroom apartments will reach $580 this year and $595 in 2012.



Forecast Summary
Sherbrooke CMA (1)
Fall 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	1,771	1,801	1,730	1,725	-0.3	1,700	-1.4
MLS® Active Listings	1,376	1,321	1,333	1,365	2.4	1,375	0.7
MLS® Average Price ($)	187,669	193,247	204,441	220,000	7.6	230,000	4.5
New Home Market							
Starts:							
Single-Detached	802	668	570	530	-7.0	500	-5.7
Multiples	825	912	1,086	970	-10.7	950	-2.1
Starts - Total	1,627	1,580	1,656	1,500	-9.4	1,450	-3.3
Average Price ($) - excluding Magog:							
Single-Detached	197,904	197,990	238,487	255,000	6.9	265,000	3.9
New Housing Price Index (% chg) (Que.)	5.0	3.1	3.1	n.a.	-	n.a.	-
Rental Market - excluding Magog in 2006							
October Vacancy Rate (%)	2.8	3.9	4.6	4.9	-	5	-
Two-bedroom Average Rent (October) ($)	543	553	566	580	-	595	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	94,300	96,800	92,600	99,000	6.9	100,000	1.0
Unemployment rate (%)	6.3	6.6	7.6	7.2	-	7.0	-
Net Migration	1,216	1,800	1,866	1,850	-0.9	1,850	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®, Statistics Canada. CMHC Forecast (2011-2012).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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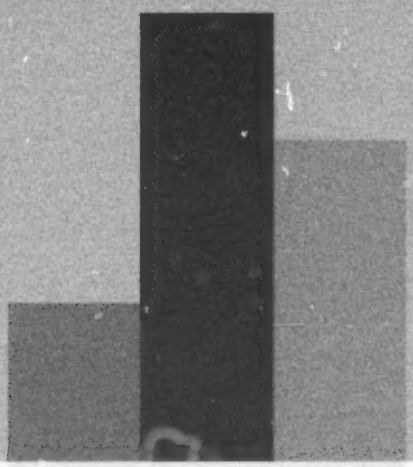

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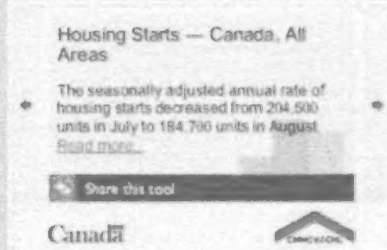
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